



2022/23 TO 2024/25

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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PART 1 – ANNUAL BUDGET

1.1 Mayor's report

Honourable Speaker, Members of the Mayoral Committee, Councilors, Municipal Manager, Directors, guests, ladies and gentlemen, good day

Speaker, it is my privilege to present the annual budget and MTREF (medium term revenue expenditure framework) for Makana Municipality in accordance with the provisions of the MFMA and Municipal Budget and reporting regulations before Council today.

This budget is once again drafted under challenging circumstances with the South African economy under severe pressure. This has caused the financial recovery to be slowed down as the citizenry are burdened by tough economic times resulting in a decline in municipal revenue streams. Also that the President has convened the fourth Investment Conference to lure investors into the Country.

Lack of infrastructure maintenance, refurbishment and renewals has now resulted in a bottleneck of infrastructure breakdown that require additional financial resources.

The aforementioned few factors coupled to the targets set in the financial recovery plan (FRP) collectively add to the considerations made in the budget process to continue with restraint in budget decisions that is required with the limited financial resources to address service delivery needs.

The Makhanda community has the right to be provided with high quality reliable services and the efficient utilization of financial resources remains key in delivering on our mandate and ensuring the financial wellbeing of the municipality.

This being said the community of Makhanda also has an obligation to assist the municipality to ensure that financial and other resources are not wasted on repetitive programs and projects such as cleaning of the environment caused by constant illegal dumping, this alone is requiring huge financial resources that could have been put to better use in addressing basic needs such as the provision of water, sanitation and housing.

The South African Economy

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose

restrictions to manage its spread. NT has revised South Africa's economic growth estimate for 2021 to 4.8%, from 5.1% at the time of the MTBPS.

The main risks to the economic outlook is a slowdown in economic growth. The evolution of COVID-19 and slow progress in vaccine rollout reinforces uncertainty and poses risks to economic recovery. Also, violent unrest in July 2021, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year.

Slow implementation of structural reforms continues to weigh on business confidence and private investment. Electricity supply constraints, which could worsen over the short term, are a drag on economic growth. In contrast, progress on energy reforms poses upside risks to fixed investment and the overall economic outlook.

Government is strictly enforcing minimum criteria before guaranteeing the debt of state-owned companies, as outlined in the 2021 Budget, which has led to a decline in guarantee requests. Nonetheless, the broader context of financial distress, weak governance unsustainable operations in many of these companies remains unaddressed;

To maximize the value of spending, government needs to contain costs, more especially consumption related spending, exercise prudent and compliant financial management, and eradicate wasteful treatment of public funds and resources. Compensation of employees remains a major cost pressure. It remains critical for municipalities to adhere to compensation ceilings, manage headcounts proactively and conduct staff audit to ensure the staff complement is aligned to the approved organogram. This will assist government to improve its fiscal position.

Local Economic Outlook

The municipality is faced with numerous financial problems which impact, amongst others, on its ability to meet its financial commitments and the provision of basic services. Given the above and the urgency to ensure service delivery to communities and financial viability and sustainability the development and the implementation of a Financial Recovery Plan has been seen as a critical way forward.

In 2019 updated the Financial Recovery Plan based on the 2014 and 2017 plans that were implemented, to realize the financial resources required to support the implementation of the Plan, the municipality needed restructure the budget, implement revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure and non-revenue generating activities.

Covid-19 has created a financial strain on municipal budget, since March 2020 Makhanda residents have lost jobs and businesses were closed down. As a result, the municipality experienced a record of decline in revenue. We needed to apply a flexibility and options to create solutions in addressing the revenue shortfall as a one-size fit all solution was not the best approach.

Cost containments measures as emphasized in MFMA Circular 82,92 and the Cost Containment Regulations effective 1 July 2019 were implemented.

The following needs to be highlighted in respect of the financial results attained to date:

2021/22 IDP & BUDGET APPROVED & CERTIFIED FUNDED:

- Budgeted for a surplus in 2021/22. Makana has managed to significantly reduce deficit in Financial Statements from R64,5M in 2017 to a restated R33,2M in 2018 and ultimately to a R5M deficit in 2019.
- Surplus of R38,9 million was generated in 2020
- Capital Budget Expenditure was poor in 2018/19 at 29% and improved to 71% in 2019/20 and 75% in 2020/21.
- Current (2021/22) Capital Expenditure already at 61%
- Makana has reduced creditors by R94m since 2018; settled AG & DoT debts; and forecasts to settle all creditors by 30 June 2022 except DWS which will be settled by 30 June 2024.
- The municipality has approved Indigents earning less than two state pensions per service below and Makana invests an amount of R31,8M per annum.
- Debt Incentive implementation since 2019 and the policy was extended to be in operation during the COVID19 pandemic up until 30 June 2022. Here we offered up to 50% discount of debt over 120 days upon payment of the balance.
- This relief, together with indigent assistance, also eased the impact of economic losses and resulted in Debt Write-offs of R150 million being effected up to 30 June 2021.
- The municipality is focusing on transferring deceased estate accounts to the estate beneficiaries and the deceased debt has also been written off.

The budget presented today is therefore based on previously identified needs of the communities we serve. The operating revenue budget amounts to R698.88 million. The bulk of the income is derived from Property Rates and Service Charges related to municipal services.

The capital budget amounts to R43,57 million and expenditure will mainly be funded from Government Grants as follows: Municipal Infrastructure Grant (MIG) R22,75 million; Water Services Infrastructure Grant (WSIG) R16,11 million; National Treasury Finance Management

Grant R0.5 million and lastly the balance being funded from Internally Generated Funds of R4,2 million.

Critical capital projects includes road resurfacing, water pipe replacements and asbestos pipe replacement project.

The application of higher water tariffs for the future is unavoidable considering the limited resource and the increase in cost. In an attempt to balance service delivery with affordability and financial sustainability, the following tariff increases are necessary; Electricity tariff increases by 12 per cent, pending the final decision by NERSA. Service Charges Water, Sewerage and Refuse and assessment rates have been increased by an average of 9%.

The municipality is reviewing the tariff structure to be cost reflective as per the financial recovery plan of the municipality to become financially sustainable. The municipalities has performed reconciliation against valuation roll data to that of the billing system to ensure that revenue anticipated from property rates is accurate, variance identified are addressed and dispute are attended through supplementary roll.

The operating expenditure budget for the 2022/2023 financial year amounts to R 620,33 million which represents an increase of R 95 million. The cost drivers of the increase in the budget can be summarized as follows: • Only existing critical vacancies were budgeted and is subject to the organogram review and costing • Bulk electricity purchases • Debt Impairment • Depreciation • Operational requirements to ensure service delivery standards are complied with, this is specifically in respect of electricity, roads and water and waste water.

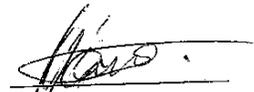
Staffing cost is at the upper limit of the norm at 39.92 % of total expenditure and effort is necessary over the MTREF to reduce staffing cost without sacrificing operational efficiency and service delivery. The salary budget is subject to change, after completion of salary cost analysis. The general salary increase of 4.8% has been forecasted based on the projected average CPI percentages and notch increases is limited to 2.2% where applicable

An amount of R16,5 million has been set aside for materials in respect of repairs and maintenance and in addition to capital budget. The percentage ratio is below the norm due to financial challenges, repairs and maintenance and renewal of infrastructure for the water and electricity network has been priorities to minimize significant loses on revenues.

In conclusion

Service delivery demands from the communities remain a high priority and it is therefore important that all stakeholders take part in the budget process to ensure that the needs of all communities are addressed and that resources are distributed equitably.

I would like to thank the Councillors, Municipal Manager, the Chief Financial Officer and the personnel in the Budget Office, Directors and other personnel who were involved in compiling this IDP and budget.



YANDISWA VARA
EXECUTIVE MAYOR

1.2 Council Resolution

- 1) The Council of Makana Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - a) The annual budget of the municipality for the financial year 2022/23 and the multi-year and single-year capital appropriations as set out in the following tables:
 - (i) Budgeted Financial Performance (revenue and expenditure by standard classification) – Table A2;
 - (ii) Budgeted Financial Performance (revenue and expenditure by municipal vote) – Table A3;
 - (iii) Budgeted Financial Performance (revenue by source and expenditure by type) – Table A4; and
 - (iv) Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source – Table A5.
 - b) The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - i. Budgeted Financial Position – Table A6;
 - ii. Budgeted Cash Flows – Table A7;
 - iii. Cash backed reserves and accumulated surplus reconciliation – Table A8;
 - iv. Asset management – Table A9; and
 - v. Basic service delivery measurement – Table A10.
- 2) The Council of Makana Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2022:
 - (i) the tariffs for property rates,
 - (ii) the tariffs for electricity,
 - (iii) the tariffs for the supply of water
 - (iv) the tariffs for sanitation services
 - (v) the tariffs for solid waste services
- 3) The Council of Makana Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2022 the tariffs for other services as contained in the tariff list included in the budget document.

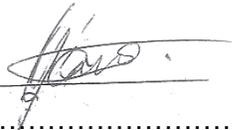
To give proper effect to the municipality's annual budget, the Council of Makana Municipality approves:

- That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of section 8 of the Municipal Budget and Reporting Regulations.

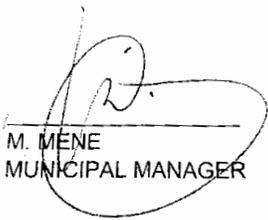
4) The following policies were reviewed and the Council of Makana Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts the following existing policies:

- | | |
|--|----------------|
| a) Asset management policy | - No Changes |
| b) Cash Management and Investment policy | - No Changes |
| c) Credit control and Debt collection policy | - Changes made |
| d) Property Rates Policy | - Changes made |
| e) Tariff policy | - Changes made |
| f) Virement policy | - No Changes |
| g) Property Rates By-law | - No Changes |
| h) Supply Chain Management policy | - No Changes |
| i) Borrowing Policy | - No Changes |
| j) Funding, Reserves and Long Term Financial Planning Policy | - No Changes |
| k) Budget Implementation and Monitoring Policy | - No Changes |
| l) Debt Incentive Policy | - Changes made |
| m) Indigent Policy | - No changes |
| n) Cost Containment Policy | - New |
| o) UIF& W Policy & Strategy | - Changes made |

5) That the Service Level Standards attached as Annexure "C" be tabled.



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Y. VARA
SPEAKER



M. MENE
MUNICIPAL MANAGER

1.3 Executive summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 112 & 115 and applicable previous budget circulars were used to guide the compilation of the 2022/23 MTREF.

The main challenges experienced during the compilation of the 2022/23 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging water, sewerage, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Department Water & Sanitation and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Salary increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2022/23 MTREF:

- The 2021/22 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2022/23 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

The following table is a consolidated overview of the proposed 2022/23 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2022/23 MTREF

Description	2021/22 Adjusted Budget	2022/23 FINANCIAL PERIOD		
		Draft Budget 2022/23	Draft Budget 2023/24	Draft Budget 2024/25
R thousands				
Total Revenue	660,907	698,882	741,625	818,343
Total Expenditure	524,465	620,332	659,848	701,870
Total Capital Expenditure	53,326	43,566	48,680	51,255
Surplus/(Deficit) inclusive of capital transfers	79,296	78,550	81,777	116,473

Operating Revenue

Total Operating Revenue for the 2022/23 financial year will increase by R37 million from R660.90 million in the 2021/22 Adjustment Budget to R698.88 million funded by increased Service Charges and increased Property Rates.

Operating Expenditure

Total operating expenditure for the 2022/23 financial year has been appropriated at R620.33 million and translates into an operational budgeted surplus of R68.64 million. When compared to the 2021/22 Adjustments Budget, operational expenditure has increased by R95.8 million in the 2022/23 financial year from R524,4 million to R620.33 million. The expenditure for the two outer years respectively increase with R30.57 million and R41.68 million respectively.

The municipality continues to face financial challenges and this has a negative impact in providing services to Makana residents and not being able to fulfil financial obligations. Repayment of long outstanding debts continues to cripple financial muscle of the institution especially Eskom account; Amatola Water & Department of Water & Sanitation. Service delivery has previously been neglected due to the financial burden of payment plans that are in place.

Capital Expenditure

The capital budget of R43.56 million for 2022/23 represents a decrease of 9.76 million when compared to the 2021/22 Adjustment Budget. The capital programme decreases are attributable to the reduction to WSIG allocation, INEP and Rollovers that are in the 2021/22 Adjustments Budget. The Capital Budget will increase to R48.68 million in the 2023/24 financial year and then increases in 2024/25 to R51.25 million. There is no borrowing in the Capital Budget due to the

lack of cash resources to repay the annual instalments. There will only be R4.2 million funded from internally generated funds in the 2022/23 financial year and R500 thousand for Finance Management Grant.

A major portion of the capital budget is mainly funded from government grants and subsidies as the municipality has limited financial resources to commit large amounts of its own funds to capital financing.

Table 2: Tabled Draft Capital Budget MTREF 2022/23 to 2024/25

EC104 MAKANA MUNICIPALITY DRAFT CAPITAL EXPENDITURE 22/23			
	MIG		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Upgrade of Ncame Street in Joza Kingsflats in Makhanda (Grahamstown)	3,384,744.51		
Replacement of Ageing Asbestos pipes in Makhanda Phase 3	8,175,996.96		
Infrastructure Asset Management Plan	1,190,695.65		
Purchase of Solid Waste Waste Compactor Vehicle	1,190,695.65		
Upgrade of Sports Facilities in Oval Stadium, Lavendar Valley Makhanda.	3,615,565.22		
Upgrade of street lights	1,190,695.65		
Upgrade of Makana way Phase 1	3,874,823.48		
Office equipment and furniture	130,434.78		
	22,753,652	23,508,739	24,451,348
	WSIG		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
WCWDM Phase 4	5,000,000	-	-
Makana Bulk Sewer Phase 3	12,112,000	16,475,652	17,217,391
Howiesonspoort Pumpset Replacement	4,000,000	-	-
	16,112,000	16,475,652	17,217,391.30
	INEP		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Upgrade 11KV Mini Substations	-	8,695,652	9,086,087
	-	8,695,652	9,086,087
Finance Management Grant	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
ICT Infrastructure Upgrading	500,000	-	500,000
	500,000	-	500,000
Internally Generated Funds			
Community Services Equipment	300,000	-	-
Technical Services Equipment	350,000	-	-
Replacement of Fleet	1,050,000	-	-
Refurbishment of Halls in Alicedale	2,200,000	-	-
Office & Computer Equipment	300,000	-	-
	4,200,000	-	-
Total Capital Budget	43,565,652	48,680,043	51,254,826

1.4 Operating Revenue Framework

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- For pensioners a rebate may be granted to owners of rate-able property. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant as his / her primary residence, and;
 - The applicant must be at least 60 and submit proof of his/her age and identity and;
 - In the case of a person being declared medical unfit even if not yet 60, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
 - Proof of monthly household income being less than the income threshold determined by the municipal council, R14 991 per month.

Comparison of proposed rates to levy for the 2022/23 financial year

EC104 MAKANA MUNICIPALITY APPROVED PROPERTY RATES FOR 2022/23		
Notice is hereby given that, in terms of the Local Government Municipality Property Rates Act (Act No. 6 of 2004) the under-mentioned cents in rands will be levied for the financial year 2022/2023 (i.e 1 July 2022 to 30 June 2023) on the categories of rateable properties in the Makana Municipality area of jurisdiction as follows:-		
PROPERTY TYPE	APPROVED CENT IN RAND (RAND/TARIFF) 2021/22	APPROVED CENT IN RAND (RAND/TARIFF) 2022/23
1. Businesses	0.020019	0.021821
2. Government Properties (e.g Public Schools, Government Buildings, etc)	0.025739	0.028055
3. Schools (Private & Public)	0.006742	0.007348
4. Residential Properties	0.006742	0.007348
5. Tertiary Institutions (e.g University)	0.013279	0.014474
6. Domestic Farmers (bona fide farmers)	0.001687	0.001838
7. Public Service Infrastructure (PSI)	0.001687	0.001838
8. Industrial Properties	0.010010	0.010910
9. Monument	0.010010	0.010910
10. Tourism/Game	0.001687	0.001838
11. RDP Houses	0.001687	0.001838
12. Sectional Titles	0.006742	0.007348
13. B&B Properties	0.006741	0.007348
14. Museum Properties	EXEMPT	EXEMPT
15. Sporting Bodies	EXEMPT	EXEMPT
16. Places of Worship	EXEMPT	EXEMPT
17. Public Benefit Organisations (P.B.O.)(Including Private Schools)	0.001687	0.001838
Please note that the municipality does not levy property rates on places of worship (churches) as in line with the Property Rates Act and the Council's Property Rates Policy. Also note that rebates as per Council Resolution, as well as rebates as per the Municipal Property Rates Act No. 6 of 2004 for all the qualifying rateable properties are available on application, which must be completed on or before 30 September each year.		

Property Rates tariffs are proposed to increase by 9 percent from 01 July 2022. The new General Valuation Roll was implemented on 01 July 2019. The municipality is currently busy with the 3rd supplementary valuation roll which will add in the rates revenue base over the MTREF.

The municipality is in the process of addressing variances identified on property rates reconciliation and the following activities are performed for the purpose of completeness:

- Identifying account with inaccurate classifications
- Undervalued properties
- Unregistered properties since 2019 and transferring of billing

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Better maintenance of infrastructure, new reservoir construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of approximately 9 percent from 1 July 2022 for water is proposed. In addition 6 kℓ water per month will **ONLY** be granted free of charge to registered indigent residents.

In light of the Drought situation, Makana Municipality's punitive tariff structure will continue to be implemented until the Settlers' Dam level increases to considerably above 30%.

EC104 MAKANA MUNICIPALITY APPROVED WATER TARRIFS 2022/23 (Excl VAT)							
CATEGORY	KILOLITRES	STEPPED TARRIF (NORMAL PERIOD) 2021/2022	STEPPED TARRIF (NORMAL PERIOD) 2022/2023	STEPPED TARRIF (CRITICAL PERIOD) 2021/2022	STEPPED TARRIF (CRITICAL PERIOD) 2022/2023	STEPPED TARRIF (CRITICAL PERIOD) 2021/2022	STEPPED TARRIF (CRITICAL PERIOD) 2022/2023
RESIDENTIAL PROPERTIES	0 - 10kl/pm	8.60	9.37	9.37	10.21	10.12	11.03
	11 - 20kl/pm	10.91	11.89	13.08	14.26	14.13	15.40
	21 - 30kl/pm	12.02	13.10	17.44	19.01	18.84	20.53
	31 - 40kl/pm	13.21	12.12	21.80	23.76	23.54	25.66
	41 - 50kl/pm	14.53	15.84	32.70	35.64	35.32	38.49
	>51kl/pm	15.99	17.43	43.60	47.52	47.09	51.33
BUSINESS; INDUSTRIAL AND OTHER PROPERTIES	0 - 10kl/pm	8.84	9.64	11.14	12.14	12.03	13.12
	11 - 20kl/pm	11.80	12.86	14.88	16.21	16.07	17.51
	21 - 30kl/pm	12.98	14.15	16.37	17.84	17.68	19.27
	31 - 40kl/pm	14.26	15.54	18.00	19.63	19.45	21.20
	41 - 50kl/pm	15.70	17.11	19.80	21.58	21.39	23.31
	>51kl/pm	17.26	18.81	21.80	23.76	23.54	25.66
NB:(i) Critical periods will be based on the Dam Levels such as when Settlers Dam is less than 30% the situation will be critical and Engineers will alert Finance in order to alter tarrifs.							
(ii) All other properties not listed amongst the above categories will be categorised by the Chief Financial Officer after motivation by applicant.							
MISCELLANEOUS WATER CHARGES							
CATEGORY	KILOLITRES					TARIFF 2021/	TARIFF 2022/
Raw	1st 10 kl					6.45	7.03
	>10kl kl					7.94	8.66
Standpipe	Consumption					24.72	26.94

1.4.3 Sale of Electricity and Impact of Tariff Increases

Bulk electricity cost are consistently higher than the inflation, having gone up to 17.8 per cent in 2021/22 financial year. Eskom's need for increased funding means that over the period ahead they'll be applying for much higher tariff and request for 2022/23 budget is 20.5 per cent, 15 per cent in 2023/24 and 10 per cent in 2024/25 financial year. Nersa rejected the revenue application and Eskom has filed application to High Court.

Considering the Eskom increases, the consumer tariff had to be increased by approximately 12 per cent to offset the additional bulk purchase cost from 1 July 2022. Furthermore, it should be noted that given the magnitude of previous tariff increases, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Free electricity to registered indigents will be granted at 50 units as per the national norm and allowed in accordance with the equitable share grant to municipalities, pensioners qualifying for assessment rates rebate will also be given the first 50 units of electricity free of charge.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply).

Owing to the previous high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable to the consumers. It is therefore proposed that the electricity upgrades only be undertaken by Grant funding. A full listing of tariffs will be available separately on the municipal website.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increases of 9 % for sanitation from 1 July 2022 is proposed. The increase in tariff is necessary to ensure that service delivery standards are met and to secure the long-term sustainability of the service over the medium term.

This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 percent of waste water treatment input costs, and therefore the cost-reflective tariff study will determine future tariff increases. The following factors also contribute to the proposed tariff increase:

- Free sanitation will be applicable to registered indigents; and
- The total revenue expected to be generated from rendering this service amounts to R58 million for the 2022/23 financial year.

The municipality is considering to link the sewer charge based on a certain percentage of water consumed in the variable charge's category, and to introduced a fixed charge. Consideration to

the fact that variable sewer charges based on a percentage of water consumption, in the time of drought and water restrictions, will also be taken into account when investigating the above method of billing.

The exercise will also assist the municipality in addressing Auditor-General recurring findings and completeness of billing.

The below table compares current and proposed amounts payable from 1 July 2022:

ANNUAL SEWER CONNECTION CHARGES	2021/2022	2022/2023
Domestic	R 1,944.00	R 2,118.96
	R 972.00	R 1,059.48
Sporting/Churches /Monument	R 972.00	R 1,059.48
Flats	R 1,944.00	R 2,118.96
	R 1,944.00	R 2,118.96
Business Sub-Economic	R 1,944.00	R 2,118.96
Housing	R 972.00	R 1,059.48
	R 0.00	R 0.00
Industrial Area	R 2,160.00	R 2,354.40
	R 1,944.00	R 2,118.96

1.4.5 Waste Removal and Impact of Tariff Increases

An increase of 9 per cent in the waste removal tariff is proposed from 1 July 2022. The removal and sewerage services charges are running at a deficit and the municipality has taken steps to budget for a breakeven or surplus position. However, due to continued struggles to adequately deliver services with aged fleet and plant, the municipality has to propose an increase of 9% to reduce the deficit. The increased charge is still well below the market price charged by other municipalities and far below private sector charges for the same service.

The following table compares current and proposed amounts payable from 1 July 2022:

	2021/2022	2022/2023
Annual Refuse Removal Charges	R 1,879.20	R 2,048.33
MONTHLY REFUSE REMOVAL CHARGES	2021/2022	2022/2023
Domestic	R 108.00	R 117.72
Business	R 215.00	R 234.35
Removal of Garden Refuse	R 650.00	R 708.50
Removal of Garden Refuse (domestic Notice)	R 785.00	R 855.65
Removal of Condemned Goods	R 410.00	R 446.90
Illegal dumping of Refuse (domestic or Other)	R 800.00	R 872.00
Special Refuse Removals (Festival)	R 200.00	R 218.00
	Cost determined by suppliers prices	Cost determined by suppliers prices
Refuse Bins / Bags & Otto Bins		
Street Traders Fruit and Veg p/m	R 41.00	R 44.69
Street Traders Clothing p/m	R 270.00	R 294.30
Street Traders Groceries p/m	R 410.00	R 446.90
NEW - LANDFILL SITE DUMPING CHARGE PER	R 43.20	R 47.09

1.5 Operating Expenditure Framework

The expenditure framework for the 2022/2023 budget and MTREF is informed by the following:

- Improvement in the quality of service delivery across all services;
- Ensuring the financial sustainability of the municipality over the medium and long term.
- Repairs and maintenance expenditure are still limited due to the financial difficulties however an amount of R16.5 million has been set aside for materials in respect of repairs and maintenance and in addition to the capital budget allocated for the upgrading of existing assets;
- Continued provision of basic services remains a high priority as well as the financial sustainability of services.
- Ensuring value for money through procurement process; and
- Cost containment measures to key control to unnecessary spending .

The below table is a high-level summary of the 2022/23 budget and MTREF (classified per main type of operating expenditure):

Description	2022/23 FINANCIAL PERIOD			
	2021/22 Adjusted Budget	Draft Budget 2022/23	Draft Budget 2023/24	Draft Budget 2024/25
R thousands				
Expenditure By Type				
Employee related costs	212,429	247,659	269,937	294,219
Remuneration of councillors	13,335	15,262	16,635	18,133
Debt impairment	45,000	58,500	61,074	63,707
Depreciation and asset impairment	28,500	35,200	36,749	38,333
Finance charges	9,000	9,000	9,396	9,801
Bulk purchases - electricity	126,000	143,500	149,814	156,272
Inventory consumed	25,226	33,791	35,277	36,798
Contracted services	38,291	45,717	47,729	49,786
Transfers and subsidies	300	300	313	327
Other expenditure	26,382	31,404	32,924	34,496
Loss on disposal of PPE	-	-	-	-
Total Expenditure	524,463	620,332	659,848	701,870

The budgeted allocation for employee related costs for the 2022/22 financial year totals R 247 659 million, which equals 39% of the total operating expenditure. Employee related cost has reached the upper limit of an acceptable ratio for employee cost to total expenditure being 39% the target set in the financial recovery plan of 5 per cent reduction. The municipality is currently busy with the organogram review and also cost analyses on current year expenditure to find ways of reducing costs.

The cost associated with the remuneration of public office bearers is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The remuneration cost of councilors is partially subsidized through the equitable share allocation awarded to the municipality in terms of the division of revenue Act.

The provision of debt impairment was determined based on an annual collection rate of 90% and the Debt Write-off Policy of the Municipality. The current average collection rate equals 67% as at end of February 2022 and it is anticipated that the recovery of debt will again increase with new revenue enhancement strategies that have been implemented and strict debt collection policy implementation .

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate at which assets are consumed. Budget appropriations has been increased to R35 million for 2022/23 financial year. This expenditure item equates to 6% of the total operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from the Department of Water. Bulk purchases equal 32% of total expenditure. The annual price increase has been factored into the budget appropriations and directly inform the revenue provisions. The expenditure includes electricity distribution losses which equals approximately 6%. Water distribution losses as at 30 June 2019 amounted to 12% and a concerted effort is necessary to ensure the reduction of the losses to further reduce and stay within acceptable norms.

Contracted services relate to the provision of services by means of the appointment of service providers where the necessary in-house skills are not available or have not yet been adequately developed. Specialist services such as security services, speeding fines services as well as technical expertise in both engineering and finance are also used for specific programs and projects to supplement in-house capacity and to provide professional expertise where required.

Certain functions also require the contracting of specialist knowledge contracted from time to time due to the fact that the municipality cannot afford to employ experts on a full-time basis. This category of expenditure equates to R45.7 million or 7% of operating expenses for the 2022/2023 financial year. The increase in the budget is mainly expenditure for Financial System, current SLA is ending in June 2022. The municipality will be testing the market for system support and maintenance and also consider Sec 33 of the MFMA.

Other general expenditure comprises of various line items relating to the daily operations of the municipality. These costs include items such as audit fees in the amount of R5 million, rates rebates, SALGA membership fees, fuel and lubricants, insurance cost, telephone expenses, printing cost, and other domestic expenses as well as a variety of other operating cost. This group of expenditure remains an area in which cost savings and efficiencies can further be achieved. Other general expenditure amounts to 5% or R31.4 million for the 2022/23 financial year.

Annual Budget Tables

Please see attached PDF A1 Schedule Budget Document.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Councils IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2020) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule during September 2021.

SCHEDULE OF KEY DEADLINES SUMMARY

AUGUST 2021	Planning
SEPTEMBER 2021	Public Participation (Inputs)
OCTOBER 2021	Management Planning
NOVEMBER 2021	Mayoral Committee / Council Planning
DECEMBER 2021– MARCH 2022	Budget Process / IDP Development Draft IDP Review and Budget Approvals
APRIL 2022	Public Participation (Report Back)
MAY 2022	Final approval of IDP and Budget
JUNE 2022	Performance System Development (SDBIP)

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The draft Integrated Development Plan (IDP) for the 2022/23 – 2026/27 financial years is to be submitted to Council for approval in March 2022.

The Municipality's IDP is its principle strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into strategic goals, strategic objective, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the annual revisions of IDP included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental strategic plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2022/23 MTREF, based on the approved 2021/22 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2022/22 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2021/22 Top Level Service Delivery and Budget Implementation Plan. Long term financial planning The long-term financial plan has been revised and is

updated with current financial and statistical information for the MTREF and a Covid 19 Impact analysis have been made. It clearly sets out funding needs as well as economic, demographic and socio economic as well as other factors that may influence the financial performance of the municipality over the next 10 to 15 years. Borrowing as a funding option is required as a result of the fact that internally generated funds are insufficient to cover the cost of ailing infrastructure that needs to be replaced or repaired on an urgent basis. The municipality needs to plan for cash-backed provisions and reserves and is barely able to do so over the MTREF. The current portion of long-term employee benefits consisting of medical aid contributions for retired personnel and for the payment of long service bonuses should be cash backed and was included in table A8, but no funding is available for reserves. The fact that salary related expenditure has reached the upper limits of the acceptable norm for this ratio is very concerning as there is virtually no room for growth in this category of expenditure over the MTREF and therefore a concerted effort will be made to rationalize and reduce this expenditure going forward. Business planning links back to priority needs and master planning and informed the detail operating budget appropriations and three-year capital programme.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to use integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Council, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Council strategically complies with the key national and provincial priorities.

The aim of the IDP review is to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Council's response to these requirements.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP.

2.3 Legislation compliance status

Compliance with the MFMA implementation requirements have been adhered to through the following activities:

In year reporting: Reporting to National Treasury in electronic format is fully complied with on a monthly basis up until the last section 71 reporting to the Executive Mayor (within 10 working days).

Minimum competency training: Minimum competency training is underway and all required staff members are enrolled for the completion of the required training. The filling of critical vacancies will also require compliance by candidates to the minimum competency requirements.

Various policy amendments are proposed as part of the budget process, all revenue management policies are being revised are to be made available with budget documentation for public input.

mSCOA Readiness: The municipality is compliant in respect of mSCOA requirements yet certain modules of the core financial system such as asset management still needs to be implemented. All data strings submitted by the municipality have been validated and have been found to be in order and perfectly aligned with budget schedules.

2.4 Overview of Budget Related Policies

The budgeting process is guided and governed by relevant legislation, strategies, and related policies. The purpose of policies is to ensure that there are controls and procedures in place that are not in contravention with the Acts. Below is reference to the budget related policies that have been reviewed during the course of 2022/2023 for implementation on 1 July 2022 in accordance with MBRR regulation. All budget policies will be available for scrutiny and input with the budget documentation.

2.4.1 Credit control and Debt Collection Procedures/Policies

To ensure Council collects all debts in respect of rates, service fees and to provide a framework for credit control and debt collection procedures and mechanisms. This strategy further seeks to explore other sources of revenue to enhance the financial muscle of the municipality and address Auditor- General findings. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate.

The proposed policy amendments are as follows:

- All customers must complete an official application form if possible, if not, the documentation received from the conveyance attorneys will be used to create a new owners account formally requesting the Municipality to connect them to service supply lines.
- When tenants are moving out, the services will be linked to the current owner account and applicable deposit(s) will be debited on the account.
- All consumers wishing to utilize municipal services must apply to enter into a service agreement or a contract will be generated upon receiving confirmation of transfer property from the rates section. The Application for Clearance will serve as proof of personal details.
- The service agreement shall set out the conditions under which the services are provided and shall require the signatories thereto to accept the contents of the municipality's credit control and debt collection policy, as well as the provisions of the Municipal Systems Act, 2000 (Act No. 32 of 2000). Existing owners and new owners who did not sign service agreements, must ensure that they obtain the applicable policy.
- The municipality shall/will disconnect the municipal services where an owner or a tenant of a residential premises/property illegally eradicate a house shop/spaza shop or any other business without official permission from the municipality was granted.

2.4.2 Property Rates Policy

The Local Government Municipal Property Rates Act (No. 6 of 2004) and section 62(1) of the Municipal Finance Management Act (No 56 of 2003) requires municipalities to develop, adopt and implement a rates policy on the levying of rates on rateable properties in the municipality.

The municipality needs a reliable source of revenue to provide basic services and perform its functions. Revenue from property rates is used to fund services that benefit the community as opposed to individual households. These include installing and maintaining streets, roads,

sidewalks, lighting, and storm drainage facilities, parks, recreational facilities and cemeteries and municipal administration.

The following amendments are proposed to this policy:

- Policy provides for categories of properties and categories of owners of properties for the purposes of granting relief measures (exemptions, reductions, and rebates) in terms of section 15 of the Act.
- Cater for amendments on the Act to fully comply with the provisions of section 8 of the Act; from 1 July 2021

2.4.3 Tariff Policy

The General Financial Management functions covered in Section 62 of the Municipal Finance Management Act (No 56 of 2003) includes the implementation of a Tariff Policy. Specific legislation applicable to each service to be taken into consideration.

2.4.4 Cost Containment Policy

The purpose of this policy is to direct the Municipality on cost containment measures that must be implemented to ensure that resources of the Municipality are used effectively, efficiently and economically. National Treasury 2019 Cost Containment Regulations requires municipality to put in place austerity and cost cutting measures to be reflected in the budget.

2.4.5 Debt Incentive Policy

The purpose of the policy is to provide for the uniform introduction of a consumer debt incentive scheme; to regulate eligibility criteria for participation within the scheme, and to define terms and conditions within which identified debts of participants to the scheme will be written-off in exchange for prompt and timeous payments of future accounts rendered by the Municipality.

2.4.5 Unauthorised, Irregular, Fruitless and Wasteful Expenditure policy/Strategy

The aim of this policy is to prevent, identify, and investigate and to respond appropriately in accordance with the law and address instances of unauthorised, irregular, or fruitless and wasteful expenditure conclusively.

On the 16 November 2021 National treasury has issued Circular 111 regarding development of UIF & W strategy. The purpose of this Circular is to introduce the generic unauthorised, irregular, fruitless and wasteful (UIF&W) expenditure reduction strategy which aims to support and introduce measures that will assist in reducing such expenditures.

2.5 Overview of Budget Assumptions

2.5.1 External factors

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS

Makana municipality still finds itself in a position where economic growth is stagnant and the cash flow is under pressure resulting in limited financial resources being available for service delivery, this is also evident in the effort that needs to be made for the recovery of debt owed to the municipality. It is also therefore necessary to carefully evaluate spending decisions and to ensure value for money in all procurement processes.

2.5.2 General inflation outlook and its impact on the municipal activities

There are many factors that have been taken into consideration in the compilation of the 2022/2023 MTREF the list hereunder represents a few of these:

- National Government macro-economic targets.
- The general inflationary outlook and the impact on the municipality's residents and businesses.
- The impact of municipal cost drivers.
- COVID 19 pandemic
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 39% of total operating expenditure in the 2022/2023 MTREF and includes critical vacancies.

2.5.3 Credit rating outlook

The Municipality has not had a credit rating done and considering the current financial position it is not advisable to have it performed.

2.5.4 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate higher than CPI over the MTREF to aid in the financial recovery of the municipality. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term, it is however anticipated that interest rates may decline in the medium term providing some form of relief to cash strapped consumers.

The rate of revenue collection is currently expressed as a percentage of annual billings. Cash flow is assumed to be 90% of billing, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Economic circumstances as well as past deficiencies in the application of the credit control and debt collection policy, a write-off of debt that has become irrecoverable will once again be inevitable during the course of the 2022/23 financial year.

2.5.5 Salary increases

Calculation of salary related expenditure for the 2022/2023 financial year increase of 4,8% which is in accordance with the bottom bracket of the inflation target put by National Treasury. The organogram review process and cost analysis study will determine the way forward and strict control over salary and related expenses needs to be done to curb escalating staff cost.

2.5.6 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of 100% will be achieved on operating expenditure and at least 98% on the capital programme for the 2022/2023 MTREF of which performance has been factored into the cash flow budget.

As the municipality needs to recover financially and austerity measures are still applied to ensure savings on all categories of expenditure. The spending on the operating budget will be dependent on the realising of the revenue as per the revenue and cash flow estimates for the MTREF.

2.6 Overview of budget funding

Funding of the Budget Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected.
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, but only for the capital budget referred to in Section 17.

Long Term Financial Planning

The municipality is the process of updating the long-term financial plan with current financial and statistical information for the MTREF and perform analysis on Covid 19 Impact. Borrowing as a funding option is required because internally generated funds are insufficient to cover the cost of ailing infrastructure that needs to be replaced or repaired on an urgent basis.

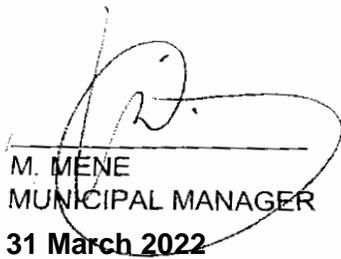
The municipality needs to plan for cash-backed provisions and reserves and is barely able to do so over the MTREF. The current portion of long-term employee benefits consisting of medical

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Municipal Manager's Quality Certification

Quality Certificate

I, M.A. Mene, Municipal Manager of EC104 Makana Municipality, hereby certify that the 2022/23 MTREF budget and supporting documentation has been prepared in accordance with the Municipal Finance Management Act (No. 56 of 2003) and the regulations made under that Act, and that the budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.



M. MENE
MUNICIPAL MANAGER
31 March 2022